

October 18, 2022

Lords Chloro Alkali Limited: Rating upgraded; outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based-Working Capital	20.00	20.00	[ICRA]BBB+ (Positive); upgraded from [ICRA]BBB, outlook revised to Positive from Stable
Fund Based-Term Loan	21.90	14.25	[ICRA]BBB+ (Positive); upgraded from [ICRA]BBB, outlook revised to Positive from Stable
Unallocated	-	7.65	[ICRA]BBB+ (Positive); upgraded from [ICRA]BBB, outlook revised to Positive from Stable
Total	41.90	41.90	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade factors in the significant improvement in the credit profile of Lords Chloro Alkali Limited (LCAL). LCAL's revenue increased significantly in FY2022 as caustic soda realisations rose on account of higher demand and lower global supply amid elevated energy prices. The revenue growth trend is likely to continue. Energy prices have increased significantly in Europe because of the current geopolitical situation, making it unviable to manufacture caustic soda in that region and leading to the shutdown of some capacities. The revision in the outlook to Positive reflects ICRA's expectation that caustic soda prices will sustain at elevated levels, leading to healthy cash flow generation, which is likely to keep the credit profile healthy despite the capex undertaken by the company.

In FY2023, the revenue is expected to witness strong growth, driven by firm caustic soda prices that have reached multi-year highs. Power costs, which comprise nearly 60-70% of the total input costs for manufacturing caustic soda, have remained largely stable as Jaipur Vidyut Vitaran Nigam Limited (JVNL) - from where LCAL sources power - has not revised the tariff since February 2020. As a result, the profitability of LCAL is expected to improve substantially amid elevated caustic soda prices and stable power costs, resulting in healthy cash flow generation and substantial improvement in debt protection metrics.

The rating continues to factor in the extensive experience of LCAL's management in the chlor-alkali industry. Further, the rating takes into account LCAL's locational advantage owing to the proximity to the end-user industry and its long-standing relationships with reputed customers.

The rating, however, is constrained by the susceptibility of LCAL's profitability to the volatility in caustic soda prices owing to the commoditised nature of the product and the cyclical nature associated with the chlor-alkali industry. Moreover, the recessionary fears in the West can also have an impact on demand. The rating also factors in the susceptibility of LCAL's profitability to adverse power tariff revisions in the absence of a captive power plant. However, as of now, high coal prices have impacted the cost-dynamics of the captive power plant. The ratings are also constrained by the small scale of operations of the company vis-à-vis other major industry players.

At present, LCAL is in the process of expanding the caustic soda capacity by around 100 tonnes per day at a total cost of around Rs. 75 crore, which is expected to be commissioned by April 2024. The company is also incurring a total capex of around Rs. 25 crore to produce chlorinated paraffin wax (CPW) and special bleaching powder (SBP), which is expected to be commissioned by February 2023 and July 2023, respectively. Given the healthy cash flow generation, majority of this capex is likely to be funded through internal accruals, keeping the credit profile comfortable.

Key rating drivers and their description

Credit strengths

Experienced and professional management - LCAL benefits from the extensive experience of its promoters in chloro-alkali chemicals. The key promoter - Mr. Madhav Dhir - and his team has extensive experience in the industry. This apart, the company is managed by Mr. Ajay Virmani, who is also experienced in chloro-alkali chemicals. The management has well-established relationships with customers and suppliers.

Healthy demand recovery for caustic soda post pandemic - The demand for caustic soda had recovered to pre-Covid levels in FY2022. With the economy currently nearly completely unlocked, the demand from key consuming sectors like the paper/pulp industry and textiles has recovered. The rise in demand has supported the increase in caustic soda prices, aiding LCAL's credit profile. However, the impact of recessionary fears in European nations can impact the demand prospects, going forward, and will be a monitorable.

Expected improvement in credit profile - In FY2022, caustic soda prices increased significantly due to higher demand and lower global supply amid elevated energy prices. Moreover, the power costs, which comprise nearly 60-70% of the total input costs for manufacturing caustic soda, have remained stable. LCAL sources power from a grid connection provided by JVVNL, which has not revised the tariff since February 2020. As a result, the profitability of LCAL is expected to improve substantially amid elevated caustic soda prices and stable power costs. A healthy cash generation is also expected to improve the credit profile, despite the capex undertaken by the company.

Credit challenges

Vulnerability of profitability to fluctuations in caustic soda and chlorine prices along with power cost - The profitability of caustic soda manufacturing companies depends on the price of electrochemical units (ECU). Cyclical downturns or adverse variability in the demand-supply balance may drag down the realisations of caustic soda players. Power accounts for a major cost of production for the chlor-alkali industry, constituting 60-70% of the production cost. As energy forms a major cost of production, the companies with captive power plants are usually at an advantage. However, LCAL's unit is dependent on JVVNL. Hence, any upward revision in the power tariff by JVVNL can adversely impact LCAL's profitability.

Small scale of operations vis-à-vis industry players- LCAL currently has 220 MTPD of caustic soda manufacturing capacity (which is expected to increase by 100 MTPD by April 2024) and remains a significantly smaller player vis-a-vis other industry incumbents, which limits LCAL's ability to withstand cyclical downturns.

Environmental and Social Risks

Chlorine is a by-product in the caustic soda manufacturing process and its disposal remains a key concern for the industry. LCAL, being present in the chemical industry, is exposed to the risk of tightening regulations on environment and safety, which can have a potential bearing on the cost structure or lead to moderate capital outlay for mitigation and treatment. As per the disclosure made by LCAL in its annual report for FY2022, LCAL has been compliant with the environmental regulations. Further, the company is also making efforts to consume chlorine by venturing into downstream products like chlorinated paraffin wax, bleaching powder, etc.

Liquidity position: Adequate

The liquidity position of the company is expected to improve in the current fiscal, driven by the easing of the working capital position and healthy cash generation expected from operations. While the capex is expected to remain high over the next two years, healthy cash and liquid investments and buffer in working capital limits is likely to keep the liquidity adequate.

Rating sensitivities

Positive factors – The rating may be upgraded if a stable cash flow generation leads to a sustained healthy credit profile and liquidity position.

Negative factors – The outlook can be revised to Stable in case of a material decline in profit generation and deterioration in the liquidity position. Further, any major debt-funded capex negatively impacting the credit profile of the company, or the total debt/OPBDITA exceeding 2.3x on a sustained basis can result in a rating revision.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of LCAL.

About the company

Lords Chloro Alkali Limited (LCAL) was incorporated in March 1979 as a public limited company. The company is listed on the BSE and is involved in the manufacture of the chloro-alkali range of chemicals with a manufacturing plant at Alwar (Rajasthan). The company supplies its products to most of the paper, soap, plastic industries based in Uttar Pradesh, Haryana, Rajasthan, Punjab and Delhi.

Key financial indicators (audited)

LCAL Standalone	FY2021	FY2022
Operating income (Rs. crore)	154.1	240.1
PAT (Rs. crore)	-2.0	32.3
OPBDIT/OI (%)	3.1%	23.4%
PAT/OI (%)	-1.3%	13.4%
Total outside liabilities/Tangible net worth (times)	1.1	0.7
Total debt/OPBDIT (times)	13.5	0.7
Interest coverage (times)	1.2	11.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years						
	Type	Amount rated (Rs. crore)	Amount outstanding as on September 30, 2022 (Rs. crore)	Date & rating on	Date & rating in FY2022		Date & rating in FY2021			Date & rating in FY2020	
					Oct 18, 2022	Dec 24, 2021	Dec 2, 2021	Feb 23, 2021	Nov 5, 2020		Sep 17, 2020
1	Term Loans	Long-term	14.25	14.25	[ICRA]BBB+ (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-

2	Fund based bank facilities	Long-term	20.00	-	[ICRA]BBB+ (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
3	Unallocated	Long-term	7.65	-	[ICRA]BBB+ (Positive)	-	-	-	-	-	-
4	Issuer Rating	Long-term	-	-	-	-	-	-	[ICRA]BBB (Stable)#	[ICRA]BBB (Stable)*	-

*put on notice, #rating withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Long-term– Fund Based Working Capital	Simple
Long-term – Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
-	Cash Credit	-	-	-	20.00	[ICRA]BBB+ (Positive)
-	Term Loan	May 2019	-	March 2024	14.25	[ICRA]BBB+ (Positive)
-	Unallocated	-	-	-	7.65	[ICRA]BBB+ (Positive)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis-NA

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